FDIC State Profile

Spring 2006

Alabama

Alabama's job growth remains stable.

- Recently revised employment data indicate that Alabama's economic performance remained solid through the end of 2005. Job growth in the fourth quarter stood at 2.2 percent compared to the national increase of 1.4 percent (see Chart 1).
- Motor vehicle manufacturing remains an exceptionally bright spot in the state's economy, given widespread industry layoffs elsewhere in the nation.
- The state's employment in the auto sector saw double-digit growth in 2005, approaching 10,000 jobs by late last year. The impact of these jobs is amplified by the fact that the industry's average annual salary is more than twice the state average. Total employment in motor vehicle-related industries may be as high 50,000.

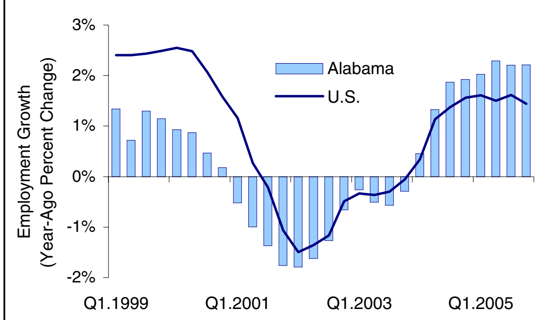
Home price appreciation accelerated in 2005.

- According to the Office of Federal Housing Enterprise Oversight, the house price index for the state rose 9.2 percent in 2005. Median home prices rose by nearly $8,800 last year, which was a record increase and well above the $3,340 average over the last 25 years (see Chart 2). Home prices in the **Montgomery** metropolitan area appreciated most rapidly with an increase of $15,400.
- Although home price appreciation accelerated in 2005, housing remains comparatively affordable. According to the National Association of Homebuilders-Wells Fargo Housing opportunity index, just 41 percent of homes nationwide are considered affordable for all U.S. households, nearly 80 percent of homes sold in **Birmingham**, for example, would be considered affordable for a family earning the median income in the metropolitan area.

The inventory of unsold existing homes is growing.

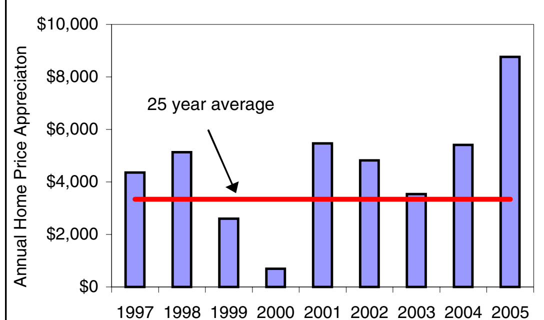
- Growth in Alabama home sales has moderated from its September 2005 peak, while increases in the inventory of unsold homes have continued to build (see Chart 3). The total number of homes listed for sale in January 2006 was 16.9 percent higher than a year ago representing a

Chart 1: Job Growth in Alabama Has Plateaued



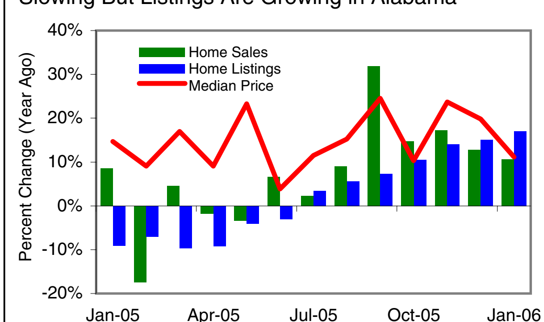
Source: Bureau of Labor Statistics

Chart 2: Annual Home Price Appreciation in Alabama Was at a Record Level in 2005



Source: Moody's Economy.com (Median existing home price)

Chart 3: Existing Home Sales and Price Gains Are Slowing But Listings Are Growing in Alabama



Source: Alabama Real Estate Research and Education Center

5.5-month supply, compared to a 5.2-month supply a year ago. The slowing pace of home sales and growing inventory levels suggests that marketing times may lengthen, potentially leading to slower price gains in 2006.

Bank profitability expanded slowly in 2005.

- Profitability at Alabama community banks improved at a slower rate during 2005.[1] Return on assets gained 9 basis points to 1.25 percent during the 12-month period, which was lower than the 13 basis point increase in 2004 (see Chart 4). Higher net interest income and lower overhead and loan loss provision expenses more than offset the declines in fee income and securities gains compared to 2004.

The changing yield curve shape has affected net interest margins (NIMs).

- Community bank NIMs have shown clear reactions to changes in the level and shape of the yield curve (see Chart 5). During 2001 and 2002, NIMs initially expanded as rate cuts led to lower funding costs, but margins then fell as borrowers refinanced residential mortgages and other loans. During 2003 margins stabilized and then began trending upward. Since mid-year 2004, earning asset yields have increased 100 basis points while funding costs have only increased 97 basis points. However, funding costs have recently begun to accelerate, suggesting that NIM pressures may begin to emerge in 2006.

Commercial real estate (CRE) lending concentrations are at unprecedented levels.

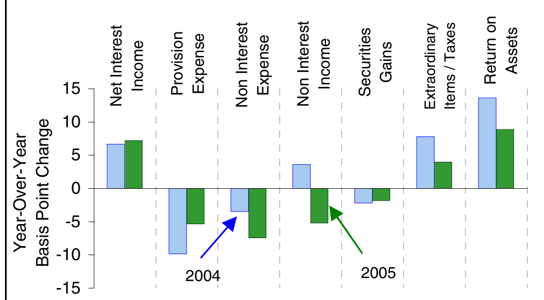
- CRE lending has been an important performance driver during the past ten years. Outstanding CRE loans have grown from $5.72 billion, or 34.8 percent of assets, in 1996 to $11.18 billion, or 45.8 percent of assets, in 2005.

- Within the CRE loan portfolio, construction & development (C&D) has been the fastest growing segment. C&D loans grew 55 percent during 2005, which was a record increase and the eighth consecutive year that double-digit growth has occurred. The majority of C&D lending is for residential housing, and continued strong absorption of new housing units will be crucial.

- C&D loan to capital ratios have increased significantly and are well above the past cyclical high reached in the late 1980s (see Chart 6). Specifically, 34 community banks (27 percent) in Alabama had an exposure of C&D loans of 100 percent or more of capital. In sharp contrast, only 5 community banks (3 percent) had a C&D loan to equity ratio of 100 percent or higher in 1987.

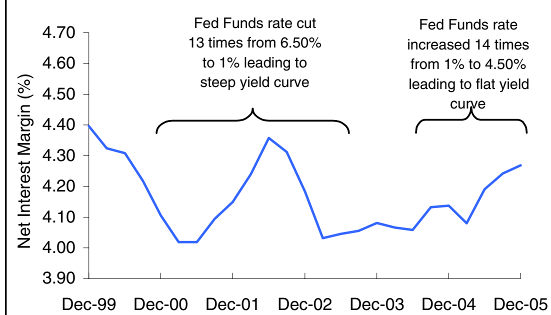
- In response to growing concentration levels among some FDIC-insured institutions nationwide, Federal banking regulatory agencies recently proposed supervisory guidance for CRE loan portfolios. The proposed guidance addresses a number of issues including the need for banks with high CRE concentrations or growth in CRE lending to have strong risk management practices, sound underwriting standards, and capital levels commensurate with risk. The comment period for the proposed guidance has been extended to April 13, 2006.

Chart 4: Profitability Gains Have Started to Moderate, But Remain Positive at Alabama Community Banks



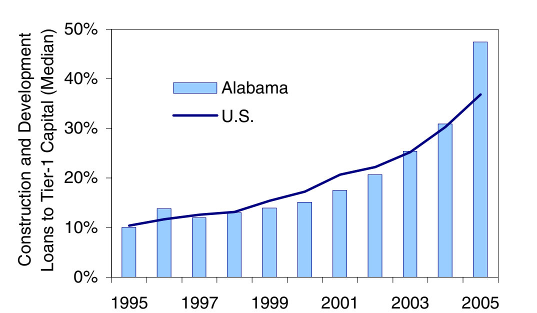
Source: FDIC, year-end data. Community banks have assets of $1 billion or less.

Chart 5: The Dynamic Interest Rate Environment Is Reflected in Alabama Community Bank Margins



Source: FDIC, quarterly data. Community banks have assets less than $1 billion.

Chart 6: Construction and Development Loans Continue to Grow at Alabama Community Banks



Source: FDIC (Community banks have assets less than $1 billion).

[1] Community banks have assets of $1 billion or less.

Alabama at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.2%	2.2%	1.9%	1.4%	-0.4%
Manufacturing (15%)	1.8%	2.0%	2.0%	-0.8%	-4.4%
Other (non-manufacturing) Goods-Producing (6%)	4.5%	3.5%	1.6%	2.6%	-0.8%
Private Service-Producing (60%)	2.5%	2.5%	2.5%	2.2%	0.3%
Government (19%)	0.9%	1.1%	0.1%	0.3%	1.1%
Unemployment Rate (% of labor force)	3.7	3.9	4.9	5.2	5.5

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	7.0%	6.5%	5.6%	4.1%
Single-Family Home Permits	3.8%	-1.1%	14.7%	16.4%	10.5%
Multifamily Building Permits	120.3%	22.4%	-28.0%	32.7%	7.3%
Existing Home Sales	14.6%	12.0%	14.0%	19.5%	14.0%
Home Price Index	9.2%	8.2%	5.4%	4.1%	4.1%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	11.50	11.06	9.00	9.21	9.35

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	161	159	164	164	162
Total Assets (in millions)	220,173	216,550	237,298	237,298	214,750
New Institutions (# < 3 years)	11	9	7	7	6
Subchapter S Institutions	29	29	24	24	23

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.59	1.58	1.99	1.99	2.68
ALLL/Total Loans (median %)	1.28	1.29	1.31	1.31	1.36
ALLL/Noncurrent Loans (median multiple)	2.58	2.47	1.86	1.86	1.48
Net Loan Losses / Total Loans (median %)	0.16	0.11	0.24	0.24	0.35

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.80	9.95	9.61	9.61	9.32
Return on Assets (median %)	1.08	1.19	0.95	1.12	1.04
Pretax Return on Assets (median %)	1.40	1.59	1.26	1.54	1.47
Net Interest Margin (median %)	4.25	4.18	4.06	4.12	4.02
Yield on Earning Assets (median %)	6.58	6.33	5.80	5.70	5.86
Cost of Funding Earning Assets (median %)	2.42	2.19	1.75	1.63	1.85
Provisions to Avg. Assets (median %)	0.16	0.15	0.20	0.21	0.24
Noninterest Income to Avg. Assets (median %)	0.71	0.69	0.73	0.74	0.72
Overhead to Avg. Assets (median %)	2.90	2.72	2.95	2.84	2.80

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	62.8	63.1	60.3	60.3	60.8
Noncore Funding to Assets (median %)	26.3	26.8	25.4	25.4	25.2
Long-term Assets to Assets (median %, call filers)	16.9	17.1	20.9	20.9	23.2
Brokered Deposits (number of institutions)	59	59	54	54	46
Brokered Deposits to Assets (median % for those above)	3.8	4.2	5.1	5.1	4.3

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	78.6	79.1	79.7	79.7	89.3
Commercial Real Estate	206.5	200.5	191.1	191.1	183.4
Construction & Development	47.4	42.8	31.6	31.6	26.2
Multifamily Residential Real Estate	4.3	4.2	4.1	4.1	2.6
Nonresidential Real Estate	136.6	134.9	134.5	134.5	125.3
Residential Real Estate	174.3	172.2	175.1	175.1	175.9
Consumer	59.2	59.0	64.5	64.5	66.7
Agriculture	11.2	11.8	10.1	10.1	10.7

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Birmingham-Hoover, AL	41	19,824	< $250 million	122 (75.8%)
Montgomery, AL	19	5,260	$250 million to $1 billion	31 (19.3%)
Mobile, AL	12	5,235	$1 billion to $10 billion	4 (2.5%)
Huntsville, AL	17	4,851	> $10 billion	4 (2.5%)
Columbus, GA-AL	13	4,541		